



We are currently renting (\$490 p.w.) but keen to buy a house for around \$700,000. We don't have any credit card debt but have personal loans totalling \$9,000 at 12%. We are in our early 30s, don't have any kids & earning \$140k combined. Should we be looking to buy a house now?

Melanie & Joshua Pike, Sydney

The Great Aussie dream has always been to own your own home – debt free! But it's not easy! There are a lot of steps you must follow before you can achieve that goal.

Firstly, you need to develop a budget. Fail to plan, plan to fail. Plenty of couples are buying their first home without any really savings plan and they are really living on pay packet to pay packet. Such a poor strategy when taking on such a large debt.

Did you know that over 20% of first home owners are already experiencing mortgage stress? And that is with record low interest rates! Imagine the stress levels once they start rising again!

When you do your budget you must be really disciplined & prune your expenses as much as possible. For example, can you reduce your rent to say \$200 per week? Or giving up the grog? Short term sacrifices are required for long term benefits. Think about the ultimate goal of owning your own home. Otherwise you could be in the rent rut forever. Whilst it is tempting to do so, do not cut any insurance cover, but increase it if anything.

Before you consider taking on any other debt, you really need to get rid of those personal loans. Did you know that paying off a 12% non-tax deductible debt is equivalent to earning 17.5% pre-tax on an investment? And it is risk free. Any debts hanging over your head when you approach the bank will impact on the amount that you can borrow.

Once you are debt free you really need to start building up a deposit. And fast. The quicker you can build it up, then the quicker that you can buy a place before prices rise. And make sure you build up a decent amount of savings. I am talking about something in the order of 20%. A minimum deposit of say 5% simply doesn't cut the mustard as far as I am concerned.

You really need to build up a buffer to cater for things like losing your job, rising interest rates and starting a family. If you want to be honest with yourself then you need to build up a decent deposit. Do that and you can save up to \$15,000 in mortgage insurance!

The next step is to find out just how much you can borrow. Don't go your regular bank but go to a mortgage broker instead. They generally deal with about 30 institutions at any one time & will know the best deal available.

The key to borrowing is to not to stretch yourself too far. It may sound conservative but whatever the bank is willing to lend you then, depending on your circumstances, discount it by up to 30%. **Don't go to the limit.** For example, if you are being assessed on your combined income of \$140k and Melanie then stops work to have children, you really are going to struggle to make repayments and put food on the table.

It is better to buy a \$550,000 house and live a comfortable life with regular family holidays rather than have a \$700,000 house and not being able to enjoy it because you have to work overtime and weekends just to meet repayments.

I see alot of people's finances & I can tell you that perception is not exactly reality. There are many who are up to their eyeballs in debt in order to match their lifestyle. Just because they have a fancy house and car does not mean that they are loaded.

Don't fall into the same trap!